

# **PROPOSED AMENDMENTS TO THE CAP-AND-TRADE REGULATION**

California Air Resources Board  
September 18, 2014

# Presentation Outline

- Cap-and-Trade Program Background and Goals
- Cap-and-Trade Program Milestones
- Proposed Amendments to the Cap-and-Trade Regulation
- CEQA Environmental Analysis
- Proposed 15-day Language
- Staff Recommendation

# What is Cap-and-Trade?

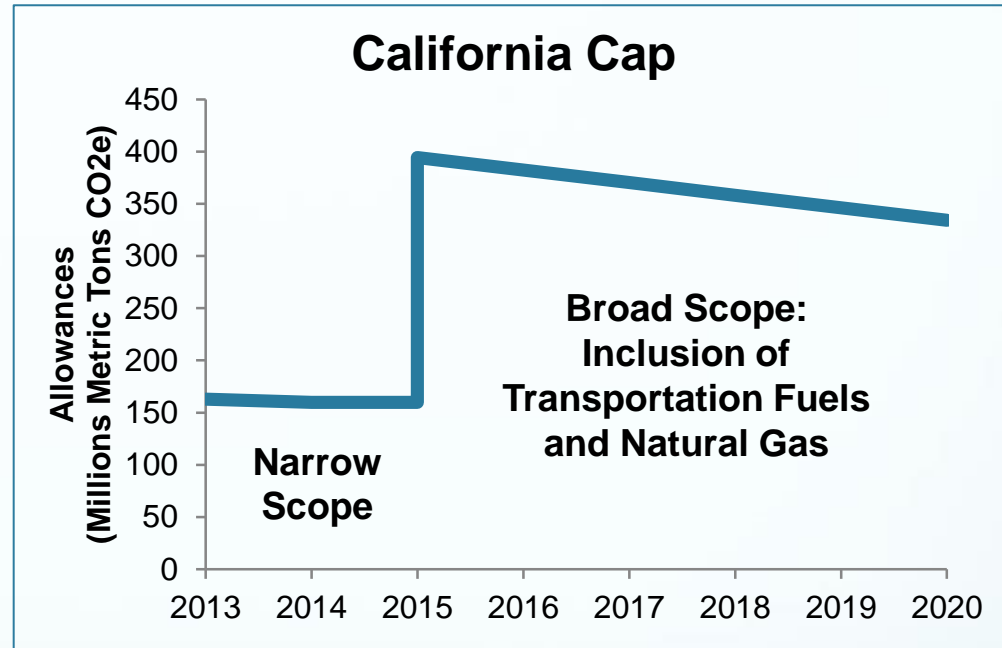
- Complements other measures to reduce greenhouse gas (GHG) emissions under AB 32
- The “cap” limits total GHG emissions from all regulated sources
- The “cap” declines over time – reduces emissions
- Participants are allowed to “trade” State-issued GHG emissions allowances – creates flexibility, reduces cost of compliance
- Works together with command-and-control measures (i.e., traditional regulation)

# Program Goals

- Reduce GHG emissions
- Spur innovation in lower emissions and efficient technologies
- Complement existing programs to reduce smog and air toxics
- Ensure AB 32 reduction mandates for GHGs are realized
- Flexible mechanism – allows covered entities to find most cost-effective reductions

# What is the Cap?

- The cap is the aggregate limit on GHG emissions from covered sources from 2013- 2020
  - The cap applies to all sources combined
  - Individual facilities do not have caps
- Cap covers 85% of California's GHG emissions
  - Large industrial sources
  - Electricity generation and imports
  - Transportation fuels (beginning in 2015)
  - Residential and commercial use of natural gas (beginning in 2015)



# Regulation Development

- Multi-year development and consultation process
- December 2010 – Board endorsed the proposed regulation with modifications
- October 2011 – Board adopted Final Regulation Order
- July 2012 – Board adopted implementation-related amendments
- April 2013 – Board adopted Québec linkage amendments
- April 2014 – Board adopted amendments to allocation, auction participation, and other implementation-related amendments and the Mine Methane Capture Offset Protocol

# Milestones

- Eight quarterly auctions to date
- Allocations: November 2012 and 2013
- Compliance Obligation Began: January 1, 2013
- First Offset Issuance: September 2013
- Linkage with Québec: January 1, 2014
- Joint Practice Auction with Québec: Aug. 8, 2014
- First Compliance Obligation Due: Nov. 1, 2014
  - Covered entities must surrender compliance instruments equal to 30% of their 2013 calendar year emissions with a compliance obligation

# Proposed Amendments: Allocation and Covered Entities

- Increase allocation (based on new information)
  - Metropolitan Water District
  - City of Shasta Lake
- Modifications to product data definitions to align with Mandatory Reporting Regulation definitions
- Clarified existing legacy contract language
- Proposal to remove compliance obligation exemption for carbon dioxide importers
  - Currently, no entities import CO<sub>2</sub>



# Proposed Amendments: Market Oversight

- Disclosure of Corporate Associations
  - Clarify indirect corporate associations are limited to associates registered in the Cap-and-Trade Program (or a linked program)
  - Extend time between disclosures for nonregistered direct corporate associations from quarterly to annual
- Staff proposal for 15-day changes

# Proposed Amendments: Market Provisions

- Offset Transfer Price Reporting
  - Clarify that transfers without specified price would report a price of zero
- Clearing House Accounts
  - Clarify that holding limit calculation will not include allowances in exchange clearing holding accounts

# Proposed Amendments: Offsets and Offset Protocols

- Resolution 11-32 directs ARB to monitor offset protocol development and propose technical updates as needed
- Update Compliance Offset Protocols to reflect correct and updated quantification methods
  - Livestock Projects Protocol
  - Ozone Depleting Substances Protocol
  - U.S. Forest Projects Protocol
- Regulatory amendments to incorporate updated protocols by reference

# CEQA Environmental Analysis

- Staff prepared an environmental analysis for the proposed amendments and the proposed updates to the offset protocols.
- Programmatic-level analysis concluded no adverse environmental impacts from the proposed amendments or updates to the offset protocols.

# Proposed 15-day Language

- Propose tailored clarifications to corporate association disclosure requirements:
  - Clarification on timing of disclosure
  - Include option to report subset of nonregistered direct corporate associations
    - Report only those in related markets
- Clarify definitions
- Clarify reporting and monitoring requirements for ODS and Livestock Protocols

# Implementation Next Steps

- First annual surrender of compliance instruments for covered entities:
  - Deadline: Nov. 3, 2014 (1<sup>st</sup> business day after Nov. 1)
  - Surrender compliance instruments equal to 30% of 2013 emissions with an obligation
- Rice Protocol – December 2014
- Adding Alaska to U.S. Forest Protocol – December 2014
- First Joint Auction with Quebec

# Québec Program Update

- California and Québec Programs linked beginning January 1, 2014
- Staff directed to provide Board updates to changes in linked programs at least 6 months prior to changes taking effect in a linked program
- 2014 Québec Program Updates
  - Québec making regulatory amendments to harmonize with recently April adopted California amendments and update ODS offset protocol
  - Québec will propose new rulemaking to further harmonize with today's proposed amendments and add Mine Methane Capture offset protocol

# Staff Recommendation

- Approve the proposed Resolution which includes:
  - Approval of written responses to environmental comments
  - Adoption of CEQA Findings and Statement of Overriding Considerations
  - Adoption of Final Regulation Order, along with proposed 15-day modifications
  - Adoption of Updated Compliance Offset Protocols for U.S. Forest Projects, Ozone Depleting Substances Projects, and Livestock Manure Digester Projects
- Proposed Resolution also directs the Executive Officer to:
  - Make appropriate changes through a 15-day package
  - Finalize Final Statement of Reasons and submit the complete regulatory package to the Office of Administrative Law